



**City of Santa Barbara**  
Airport Department

**Memorandum**

**DATE:** May 16, 2012  
**TO:** Airport Commission  
**FROM:** Karen Ramsdell, Airport Director  
**SUBJECT:** Lease Amendment Agreement – Ag Rx

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**RECOMMENDATION:**

That Council Approve and authorize the Airport Director to execute a Lease Amendment Agreement to Lease No. 22980, with Ag Rx, a California Corporation, amending Article 5, "RENTAL", Article 10, "LIABILITY: INSURANCE AND INDEMNIFICATION", and Article 24, "DAMAGE OR DESTRUCTION", to make an early market rate adjustment to the rent and update the terms of the Lease.

**DISCUSSION:**

The subject premises are located north of Hollister Avenue at 6150 Francis Botello Road, in an Airport Industrial (AI-1) zone.

Ag Rx has been a tenant since May 1994 operating a wholesale distribution center for the purchase of agricultural supplies. The space includes associated office and storage space for liquid and solid fertilizers and related materials. The use is conforming with existing zoning.

February 1, 2009 the City entered into a lease agreement with AG Rx for a term of five years with one five-year option. Article 6, "RENTAL ADJUSTMENT" of the lease provided for an annual CPI increase of no less than 3% per year. Following the weakening of the economy, the CPI for 2009 actually averaged -.8%. In 2010 it averaged 1.2%.

During the past three years, AG Rx's rent has been adjusted at the required minimum 3% each year. The cumulative effect has been to raise AG Rx's building rent to \$1.12 per square foot, approximately 7%-8% above other similar buildings on the Airport, and indeed above buildings in superior condition. The building contains two warehouse spaces with offices, and one office only space.

In January 2012, AG Rx contacted the Airport and asked for a reduction to market rent. Due to the downturn in the economy, growers are choosing to save money by fertilizing and applying pest control product less frequently, resulting in lost revenue to agricultural product suppliers. Under the terms of the Lease, a Market Rate Rental Adjustment is due in 2013.

Based upon preliminary appraisal results and comparisons with other Airport and surrounding Goleta properties, Staff has concluded that an early market rate rental adjustment is fair and reasonable. Staff is proposing a new rental rate of \$1.05 per square foot for the building, which is within the approved ranges for industrial buildings approved by Airport Commission in June 2011. Monthly rental for the adjacent paved land is at market and will remain \$.19 per square foot. The proposed total monthly rental will be \$7,239 per month.

Unfortunately, the appraisal and negotiation process was not completed in time to meet the anniversary date of the lease (February 1<sup>st</sup>). Staff is recommending that the revised rent be applied retroactively from February 1, 2012 in order to maintain the rental adjustment date specified in Article 6, "RENTAL ADJUSTMENT" of the lease.

The proposed Lease Amendment Agreement has been negotiated based upon the criteria set forth in Resolution 93-127, and has been reviewed and determined to be exempt from environmental review.

**PREPARED BY:** Business & Property Division

**ATTACHMENT:** Map